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November 30, 2009

TO: Each Supervisor

FROM: John F. Schunhoff, Ph.D.
Interim Director

SUBJECT: **COMMUNITY HEALTH PLAN'S MEDI-CAL FUNDING AGREEMENT WITH LA CARE HEALTH PLAN**

On October 28, 2009, I sent you a memo advising you that the Department of Health Services (DHS or Department) would be filing a Board letter for a new Plan Partner Medi-Cal funding agreement with LA Care Health Plan (LA Care) for the Department's Community Health Plan (CHP). I also informed you that changes in payment methodologies would have a significant revenue impact on the Department. At that time, the calculated year one annual impact was $12.1 million, rising to $28.1 million in year three. This to inform you that those calculations were incorrect.

LA Care disagreed with the Department's estimated impact of $12.1 million, and I asked the DHS Finance staff to independently verify the numbers which had been calculated by CHP Finance. DHS Finance's calculation for year one, comparing rates in the current agreement with the rates in the proposed agreement, applied to the August 2009 enrollment profile, is an annual impact of $6.6 million, which is much closer to the $6.2 million initially calculated by LA Care, than the CHP calculation of $12.1 million. DHS Finance has reviewed its calculations with both LA Care and CHP, and both agree to the revised number, which is approximately a 4.1 percent reduction in CHP projected revenue from LA Care in the first year.

LA Care has implemented only 20% of the risk adjustment in year one, consistent with the 20% implementation by the State. If the State proceeds with further implementation in years two and three, LA Care may adjust the rates to implement up to 60% of the risk adjustment in year two and 100% in the third year. LA Care will also recalculate the base risk adjustment each year, with updated data on the acuity of the population. Assuming that 1) LA Care fully implements the risk adjustments in years two and three, 2) there is no change in the number of enrollees assigned to CHP, and 3) there is no improvement or decline in CHP's calculated risk adjustment [either based on changes in the enrollee population or in the data used to calculate the risk profile], then CHP could see further revenue reductions in years two and three of $8 million per year [year 2 total reduction $14.6 million, and year three total reduction $22.6 million].

LA Care has offered to partially backfill the loss of revenue in the first year through support of County safety net services. DHS is undertaking efforts to improve data capture to demonstrate a higher acuity population for CHP, and this is one option we are exploring for LA Care support.

Additional mitigation of the revenue reduction may come from an adjustment which the State made to the auto-assign percentage between LA Care and Health Net. LA Care's superior quality performance [including CHP and the other LA Care plan partners] means that CHP will be receiving 10% more auto-assignments. LA Care projects that this could yield an additional $6 - $8 million in revenue to CHP annually, dependent on overall enrollment trends.

In my October 28 memo, I reported that back-up information on the new rates for CHP was difficult to obtain. Based on the independent financial review, it appears that LA Care did provide the necessary information to evaluate the rate changes, but it was incorrectly interpreted by CHP staff.

The Department planned to file a Board letter for the December 8, 2009 meeting for approval of the new agreement. We have now revised that draft Board letter to reflect the new financial calculations and will file it for your consideration at your December 15 meeting. We have scheduled it for discussion at the Health and Mental Health Cluster Agenda Review meeting on December 2. In the meantime, if you have any questions or require additional information, please let me know.

JFS:jfs

c: Chief Executive Officer
Acting County Counsel
Executive Officer, Board of Supervisors
CEO, LA Care Health Plan